



California Health Reform (AB x1 1): WHO GETS WHAT HELP?

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California is currently considering the Health Care Security and Cost Reduction Act (AB x1 1), a comprehensive health reform effort negotiated by Governor Arnold Schwarzenegger and Speaker Fabian Nunez, and authored by Assembly Speaker Nunez and Senate President Pro Tem Don Perata, in both the state legislature and potentially on the November 2008 ballot.

For many consumers, one test of any health reform and coverage expansion is a very basic one: **how does it help me and my family get and afford health care?**

The proposal includes a requirement for individuals to have coverage, although that mandate is conditioned on affordability, and allows for exemptions based on affordability or hardship. Some consumer groups have argued that a mandate is unwarranted, since people want coverage: they simply faced barriers to getting coverage. So, the real focus of attention should be on how much help individuals and families get to be able to meet the mandate, to get the coverage that they want and need.

This paper is an analysis of how the current proposal, AB x1 1, would help different populations in getting health coverage in comparison with the status quo, for families in various incomes, for both the uninsured and insured, and for people who are getting coverage through employers, public programs, and the individual market.

FOR THE UNINSURED

Californians are more likely to be uninsured than residents of all but five states. The proposal seeks to cover over two-thirds of the state's uninsured, or over 95% of the state's population as a whole. The vast majority--80%--of the uninsured are workers or their family members, the 5 million Californians who are uninsured at any given time (or the 6.5 million who are uninsured at some point in a given year). The uninsured face health and financial consequences because they go without coverage, even for part of the year. Providing coverage will prevent those who are uninsured from having to live sicker, die younger, and be one emergency away from financial ruin.

And health care is regressive: those who have the lowest incomes pay the most as a share of income in terms of share of premium and out of pocket costs.

- All **uninsured children** up to 300 percent of the federal poverty level (over 800,000 children—very few children are uninsured above 300% FPL, or \$62,000 for a family of four) will be eligible and enrolled in the state's Medi-Cal or Healthy Families programs, getting comprehensive coverage with minimal cost-sharing.

- This also includes covering tens of thousands of children now enrolled in county “children’s health initiatives” (CHIs). These county efforts are running out of money, and would otherwise have to dis-enroll children if this health reform is not passed and the ballot measure is not successful.
- Families would face very modest cost sharing, with low or no premiums and out of pocket costs limited to \$250 a year.
- Those **uninsured Californian citizens between 0-250 percent** of the federal poverty level (3 million people, under \$52K for a family of four), or those who fall into that category when they are between jobs, would be eligible for comprehensive coverage like Medi-Cal or Healthy Families.
 - Those under the poverty level (\$21K for a family of four; now around 1.2 million uninsured adults) will have no cost sharing, no premiums and no copays or deductibles.
 - Those between the poverty level and 250% of federal poverty level (now around 1.8 million California adults who earn up to \$52K for a family of four) would have no or minimal cost sharing, with what people pay scaled from zero to a maximum of 5% for premium and all out of pocket costs.
 - If they don't have access to public coverage or employer-based coverage that costs less than 5% of their income for health care expenses, they are exempt from any mandate to have coverage.
- For those **uninsured from 250-400 percent** (estimated to include 600,000 people now, up to 83K for a family of four), there will be help in a couple of different ways.
 - Those who buy coverage as individuals will be able to do so on a “guaranteed-issue” basis, so that are not denied because of their “pre-existing conditions.” After a four-year phase-in, insurers will no longer be able to charge different rates based on health status, under “modified community rating”.
 - Many workers are more likely to get an employer contribution toward their health care, due to the minimum employer contribution requirements, where employers will either provide coverage directly, or pay the fee and join the statewide purchasing pool.
 - If they don't get coverage from an employer, they can get a subsidy so that a mid-level (“tier 3”) coverage product would cost them 5.5 percent of income for premium. Eligible people can use the value of whatever subsidy they get to buy a comprehensive plan for more than 5.5 percent (maybe 8 or 9 percent), or buy a cheaper plan (for maybe 2 or 3 percent) that has a higher deductible or cost-sharing.
 - Even those employees that don’t need the subsidy would get the ability, under a Section 125 plan, of using pre-tax dollars to pay for their share-of-premium, a 15-40% savings, depending on their tax bracket.
 - Those who get the subsidy or the Section 125 tax credit through the purchasing pool would have the benefit of having the pool negotiate the best possible rate on their behalf.

- In summary, these Californians get additional access through guaranteed issue, a subsidy/tax credit they didn't have before, maybe an employer contribution they didn't have before, and a purchasing pool they didn't have before to negotiate on their behalf. And they have a choice of paying a premium much less than 5 percent of income and getting high-deductible coverage, or getting a comprehensive top-tier plan that is still a reasonable percent of income.
- For the **uninsured over 400 percent** of federal poverty level (over \$83K for a family of four), there is additional help as well. Of the 2% of Californians that are uninsured and over 400% of the federal poverty level, half (350,000) are under 600% of the federal poverty level, and half are above.)
 - A fraction of the uninsured that are over 400 percent are uninsured for more than six months. Those people between jobs would be eligible for subsidized coverage during their period at a lower income.
 - Those who buy coverage as individuals will be able to obtain it on a “guaranteed-issue” basis, so that they are not denied health insurance because of their “pre-existing conditions.” After a four-year phase-in, insurers will no longer be able to charge different rates based on health status, under “modified community rating.”
 - Workers also get the Section 125, providing the ability to pay premiums (or share-of-premiums) with pre-tax dollars (which in this income range is probably a 30 percent or more discount.)
 - Any uninsured employees in this category are the most likely to get an increased contribution from their employer, under the minimum employer contributions.
 - There's also some money booked to provide a subsidy/tax credit for early retirees, who face higher premiums for those over 50. The bill also does give the Department of Insurance and Department of Managed Health Care the ability to set a limit on the difference that people can be charged because of age.
 - Finally, for this and other populations, there is an exemption process if needed, so that people can say that they want temporary or long-term exemptions, based on affordability or hardship.
- **Those left uninsured**, such as some visitors to the state, some undocumented, those exempted due to affordability or hardship, and others, would have access to better funded community clinics and public hospitals as a safety-net.

FOR THE INSURED:

In general, the benefits for the *insured* are in three categories:

* **DIRECT FINANCIAL ASSISTANCE:** Many insured are spending large percentages of their income on health coverage and care. The public program expansions, new subsidies, required employer contributions, and Section 125 benefits would provide additional financial relief for many people, concentrated at the lower-income, but including Californians up and down the income scale.

* **A BETTER HEALTH CARE SYSTEM:** Those who are insured will appreciate the elements of the proposal to improve the health system on which we all rely:

- **New Funding:** The reform would infuse over \$14 billion into our health care system—including billions in new federal matching funds, money that California has been entitled to but has been leaving in Washington because the state has under-invested. This will improve the infrastructure of hospitals, clinics, and health providers that we all use, insured and uninsured.
- **Prevention and Cost Containment:** While there is more to do, the proposal includes a range of cost containment provisions, including:
 - prevention initiatives, like community makeover grants;
 - public health efforts on obesity, diabetes, and tobacco use,
 - the tobacco tax, which by itself will reduce tobacco use,
 - transparency to better track the cost and quality of care,
 - information technology and e-prescribing for efficiency,
 - new public insurance options for consumers,
 - bulk purchasing for prescription drugs, and the ability of the statewide purchasing pool to have bargaining power in negotiating down costs,
 - Also, insurance companies will have to spent at least 85% of their premium dollars on care, rather than administration, marketing, and profit.
 - Governor Schwarzenegger also talks about removing the “hidden tax” that the insured pay to make up for uncompensated care.
 - All these efforts, taken together, can help reduce the cost, and slow the growth, of health care over the long term.

* **SECURITY:** Even those who are insured now are concerned that it won't be there for them when they need it. In the case of a job change, divorce, loss of income, or other change in life circumstance, these reforms make it more likely that a Californians will get the help they need to get the coverage they want—making coverage more available, affordable and automatic, whether they seek to get coverage through an employer, a public program, or in the individual market.

Here's how specific ***insured*** populations are impacted:

- **For those who get employer-based coverage now** (19 million Californians)
 - They would have additional security that their employer won't be able to completely drop coverage altogether, and the likelihood that they can get coverage even after a job change or other life change.
 - Even for those who work for employers that do more than required on health benefits, the minimum levels now create a floor from which to bargain up from, as opposed to now, where there is no requirement at all.
 - Those with lower-incomes may get a subsidy or improved coverage with less cost-sharing through the public program expansion.
 - The cost containment elements may help address rising costs.
- **For Medi-Cal recipients** (6.8 million low-income children, parents, seniors, and people with disabilities)
 - They get much better access to doctors, hospitals and other providers, due to increased Medi-Cal reimbursement rates.
 - They also get better security to keep their coverage, with the removal of the "asset test" that now prohibits their ability to save.
- **For Medicare recipients** (around 4 million), there's no direct impact, since Medicare, as a federal program, is left untouched.
 - However, seniors and people with disabilities are the most frequent users of our health care system, and having an infusion of new money and federal matching funds into our health system will help, as will the cost containment efforts described above.
- **For Californians who now buy coverage in the individual market** (around 2 million now) could get help in several ways.
 - Some will find that their employer will now provide coverage.
 - Others will find that they are now eligible for public program coverage.
 - Those still in the individual market--employed but without an employer contribution--will still get the benefit of a Section 125 plan to use pre-tax dollars to pay for premiums. Some may also get a subsidy for those under 400% (or early retirees above 400%), helping them pay for premiums. These folks also get the benefit of buying coverage through a purchasing pool that can negotiate the best possible rate.
 - As those who bear the entire cost of coverage themselves, they would be the consumers most advantaged by the cost containment measures.
 - In addition, these folks will have greater security that their premiums can't be increased because of their health status, so people don't have to fear that they would "use it and lose it."
 - Since insurers would no longer be able to underwrite and deny people coverage under "guaranteed issue" rules, there would be no cause or ability for insurers to be able to rescind coverage retroactively as well.
 - Finally, those buying in the individual market would have a much easier time getting coverage, as the individual market will be "tiered" so people, are able to make apples-to-apples comparisons between plans on both benefits and premiums.